CAPRICORN
FUND MANAGERS

RESEARCH POLICY

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1. INTRODUCTION

With the implementation of MiFID II in January 2018, the Firm is subject to a number of requirements with respect to receiving third party research, which is part of a wider restriction on the payment or receipt of 'inducements'.

Broadly, research which is received from a third party must fall into one of the following categories:

- Paid for by the Firm;
- Paid for by the client via a 'Research Payment Account'; or
- Received for free, if it can be deemed to be a 'minor-non-monetary benefit'.

The Firm must apply a number of obligations to the receipt of research:

- Identifying the research and research provider;
- Categorising the research to determine who is paying for the research if it is considered not to be a minor non-monetary benefit;
- Dealing with 'unwanted' research;
- Managing the receipt and consumption of research;
- Setting research budgets;
- Vendor selection;
- Quality assessment;
- Administering the research payment accounts, as applicable;
- Senior management oversight; and
- Disclosure to clients and investors, as applicable.

Where the Firm receives both research and execution services from the same third party, the Firm must ensure that its ability to meet its best execution requirements is not compromised.

This means, for example, that a Firm's choice of broker for execution must be made independently of the provision of research provided by that broker.

2. RECEIPT OF RESEARCH – OVERVIEW

Receipt of third party research is permissible if it is received in return for monetary payments or it is considered to be a minor non-monetary benefit.

2.1 RECEIVED IN RETURN FOR MONETARY PAYMENTS

Research from a third party will not be considered to be an inducement if it is received in return for:

a) Direct payments by the Firm out of its own resources; or
b) Payments from a separate research payment account ("**RPA**") that is controlled by the Firm and which meets certain prescribed conditions.

The Firm is able to utilise a combination of these methods. However, the Firm must consider whether this 'mixed funding' approach gives rise to any potential conflicts of interest, for example, between one of more clients.

2.2 MINOR NON-MONETARY BENEFIT

Certain types of research can be considered to be a minor non-monetary benefit, in which case the research can be received free of charge. See **Section 3.3** for further details.

When determining whether research is acceptable as a minor non-monetary benefit, the Firm must meet certain conditions relating to the acceptance of minor non-monetary benefits generally. This includes ensuring that the research received is reasonable and proportionate and of such a scale that it is unlikely to influence the Firm's behaviours in any way that is detrimental to the interest of the relevant client(s).

3. DEFINITION OF RESEARCH

3.1 GENERAL DEFINITION

Research is defined as material or services:

(1) Concerning one or several financial instruments or other assets; or

(2) Concerning the issuers or potential issuers of financial instruments; or

(3) Closely related to a specific industry or market,

such that it informs views on financial instruments, assets or issuers within that sector, and which explicitly or implicitly recommends or suggests an investment strategy and provides a substantiated opinion as to the present or future value or price of such instruments or assets, or otherwise contains analysis and original insights and reaches conclusions based on new or existing information that could be used to inform an investment strategy or be capable of adding value to a firm's decisions on behalf of clients.

Hence, the definition goes beyond presenting an informed view on a specific financial instrument and could include other information that contributes to investment decisions, including potentially macro-economic research. In addition, research on fixed income, currencies and commodities is also within the definition, unless the research provider elects to make it available to the public free of charge, or the research material is commissioned and paid for by a corporate issuer or potential issuer.

Research may take a number of forms of media, including written documents, online content, calls and meetings with third party analysts and webinars.

The FCA provides examples of goods and services that it does not regard as research. These must be paid for by the Firm and cannot be paid for out of a RPA:

(1) Post-trade analytics;

(2) Price feeds or historical price data that have not been analysed or manipulated in order to present the firm with meaningful conclusions;

(3) Services relating to the valuation or performance measurement of portfolios;

(4) Seminar fees;

(5) Corporate access services[1];

(6) Subscriptions for publications;

(7) Travel, accommodation or entertainment costs;

(8) Order and execution management systems;

(9) Membership fees to professional associations;

(10) Direct money payments; and

(11) Administration of a Research Payment Account (this concept is introduced later on in this document).

3.2 THIRD PARTY PROVIDER OF RESEARCH

The MiFID II requirements apply where the research is provided by a third party.

A third party is any entity that operates independently from the Firm, regardless as to where they are based globally. This includes where the research is provided by another group entity. It should be noted that this research requirement is not restricted to third parties that also provide execution services.

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[1] ESMA concludes that corporate access services do not appear to be research where there is no implicit or explicit recommendation or suggestions of an investment strategy or substantiated opinion regarding the current or future price/value of instruments/assets. However, the firms arranging corporate access need to make sure that pricing and charging for research is not subsidising the service. Accordingly, if considerable resources are applied to arranging exclusive meetings, it may amount to a 'material benefit' as opposed to being acceptable as a minor non-monetary benefit. Whereas, investor roadshows publicly open to analysts and investors may be capable of qualifying as a minor non-monetary benefit.

3.3 Minor Non-Monetary Benefit

The following research can be considered to be a minor non-monetary benefit:

3.3.1 Trial Period

Research received from a third party as part of a 'trial period', so that the firm may evaluate the research provider's research service, can be considered to be a minor non-monetary benefit', and therefore can be received without the requirement to comply with the research requirements, provided the following conditions are met:

- (i) It is received during a trial period that lasts no longer than three months;
- (ii) No monetary or non-monetary consideration is due (whether during the trial period, before or after) to the research provider for providing the research during the trial period;
- (iii) The trial period is not commenced with the research provider within 12 months from the termination of an arrangement for the provision of research (including any previous trial period) with the research provider; and
- (iv) The firm makes and retains a record of the dates of any trial period accepted under this rule, as well as a record of how the conditions in (i) to (iii) were satisfied for each such trial period.

3.3.2 Research that is a Minor Non-Monetary Benefit Based Upon Content

Research that can be considered a minor non-monetary benefit includes:

- 'Connected research' written by a bank's analyst on an issuer in the specific context of a primary market capital raising event, where it is clearly circulated to inform potential investors about that specific issuance prior to a deal being completed;
- The third party is contractually engaged and paid by the issuer to produce material related to the issuer on an ongoing basis; and
- Non-substantive material or services consisting of short term market commentary on the latest economic statistics or company results, including information on upcoming releases or events, which is provided by a third party and contains only a brief summary of its own opinion on such information that is not substantiated nor includes any substantive analysis such as where they simply reiterate a view based on an existing recommendation or substantive research material or services.

3.4 Unsolicited Research

Unsolicited research is research that the Firm has not specifically requested.

Where the Firm received unsolicited research, it must either:

- Decide to accept the research (and establish a mechanism for paying for the research);
- Deem the research to be a minor non-monetary benefit; or
- Conclude that it does not want to accept the research, in which case reasonable steps should be taken to cease receiving it or avoid benefitting from its content.

4. MANAGING RECEIPT OF RESEARCH

4.1 Classification

The Firm has procedures for managing the receipt and classification of third party research.

- Determining whether written documentation falls within the definition of 'research';
- Determining whether research received can be appropriately categorised as (i) paid for (using a pre-determined methodology) or (ii) accepted as a minor non-monetary benefit;
- Once receipt of research has been 'approved' determining who within the firm should receive such research via email or otherwise. The firm has a specific email address, cfmgroup@rqcgroup.com to which all research is sent in addition to other users to enable tracking of the written research log.

4.2 WRITTEN POLICY STATEMENT WHEN OPERATING A RPA

The Firm must address the extent to which research purchased through the RPA may benefit funds and clients' portfolios, including, where relevant, taking into account investment strategies applicable to various types of portfolios, and the approach the Firm will take to allocate such costs fairly to the various portfolios.

With respect to managed accounts, this policy must be provided to clients.

With respect to AIFs to which the Firm acts as AIFM, this policy must be provided to the AIF's investors. In addition, the policy must contain a statement as to where up-to-date information on the matters covered in **Section 7.1.1** can be obtained.

The Firm's Policy Statement is set out in **Annex I** and reviewed annually. It is provided as part of the information provided to investors as part of the "pre-investment disclosure" information per AIFMD.

5. DETERMINING THE RPA BUDGET AND SELECTION OF THIRD PARTY RESEARCH PROVIDERS

When operating a RPA, the Firm is required to:

(i) Establish, monitor and review an overall research budget for a period (e.g. 12 months);

- The research budget must be managed solely by the Firm and based on a reasonable assessment of the need for third party research; and
- The Firm must regularly assess the research budget as an internal administrative measure.

(ii) Agree a specific research charge with each client for the period, which is subsequently monitored and reviewed (with respect to AIFs, this applies where the fund has its own governing body which is independent from the Firm):

- The RPA must be funded by a specific research charge to the Firm's clients, which must:
  - Be based on the research budget set by the Firm as detailed in (i) above; and
  - Not be linked to the volume or value of transactions executed on behalf of the Firm's clients;
- The Firm is able to set a budget for a group of clients that would benefit from the same research, and to have a dedicated RPA for that group of clients. A methodology would need to be established in order to fairly allocate the research charge to individual clients;
- With respect to AIFs managed by the Firm, the research budget or research charge must not be increased unless the Firm has provided, in good time before such increased are to take effect, clear information about the increase. This information must be made available to investors and potential investors; and
- With respect to managed accounts, the research budget must not be increased unless the Firm has provided, in good time before such increases are to take effect, clear information to relevant clients about such intended increased.

Research will be apportioned on an AUM basis and any changes communicated to AIF investors/clients by e-mail.

(iii) Select providers of the research and ensure that payments to those providers are within the set budget. It is not necessary to select the providers of research in advance of the setting of the overall budget.

- Decisions on the procurement of research must be documented, and taken separately and distinctly from decisions on the choice of other services and benefits, including brokerage and execution services.
- Procurement controls are in place with respect to research providers, including:
  - Due diligence process when selecting research providers;
  - Assessing whether the method of payment agreed with the research provider is compatible with the budget and the Firm's research needs; and#
  - Internal approval process.

5.1 Assessing the Quality of Research Received

Where purchased using a RPA, the Firm must regularly assess the quality of the research purchased, based on robust quality criteria, and its ability to contribute to better investment decisions for its clients. This should feed into the ongoing review of the current research budget and vendor relationships, and be a factor with respect to decisions related to the next (e.g. annual) research budget, and future vendor relationships. This includes annual holistic assessments of research received from service providers.

5.2 Administration of the RPA

The Firm must be fully responsible for the RPA. In particular, the Firm should retain overall control over the overall spending for research, the collection of client research charges and the determination of payments.

The Firm may delegate the administration of the RPA to a third party, provided the following conditions are met:

- The arrangement facilitates payments to research providers, in the name of the Firm, for the purchase of third party research, without any undue delay and in accordance with the Firm's instruction;
- The Firm can collect client research charges relating to a specific research budget into a separate research payment account for that budget, as cleared funds, without undue delay (see also below with respect to the definition of 'undue delay');
- The Firm retains sole, full and absolute discretion over the use of the account and the making of payments or rebates;
- RPA monies are ring-fenced and separately identifiable from the assets of the third party or, where the third party administrator is a bank, are held on deposit for the Firm; and
- The third party provider has, or its creditors on insolvency have, no right of access or recourse to the RPA for its own benefit, for example to offset other fees owed by the firm or for use as collateral.

The transfer of research charges into a RPA should be effected without undue delay, and in any event within 30 calendar days of a transaction taking place.

If there is a surplus of funds in the RPA at the end of the period, the Firm must:

- Rebate those funds to relevant clients; or
- Offset them against the research budget and charge calculated for the following period.

The Firm must take reasonable steps to ensure the aforementioned rebate or offset is fairly allocated between clients.

Netting of 'commission sharing arrangement' payments into the RPA against payments out of the RPA to the same broker is not permitted.

Arrangements for collecting research charges by deducting charges from clients' resources should ensure that these arrangements comply with FCA provisions with respect to mandates, as detailed in Chapter 8 of the FCA's Client Assets Sourcebook (CASS), as applicable.

6. SENIOR MANAGEMENT OVERSIGHT

The allocation of the research budget to purchase third party research using a RPA must be subject to appropriate controls and senior management oversight to ensure it is managed and used in the best interests of its clients.

7. INFORMATION TO CLIENTS AND AIF INVESTORS

7.1 Prior Disclosure

7.1.1 Prior Disclosure to AIF Investors

The Firm must publish:

- The budgeted amount for research; and
- The amount of the estimated research charge for each fund

This information must be made available to investors and potential investors in the fund.

7.1.2 Prior disclosure to managed account clients

The Firm must provide, prior to commencing the investment service:

- Information about the budgeted amount for research; and
- The amount of the estimated research charge for the client

7.2 Contractual Arrangements

The Firm must agree with clients (comprising AIFs and managed account clients):

- The research charge as budgeted by the Firm (with respect to AIFs, this is applicable where the AIF has a governing body that is independent from the Firm); and
- The frequency with which the research charge will be deducted from the resources of the client over the year.

7.3 Periodic Information

7.3.1 Periodic Information to AIF investors

- Information on the total costs that the AIF has incurred for third party research in the most recent accounting period.

7.3.2 Annual Information to Managed Account Clients

- Information on the total costs that the client has incurred for third party research; and
- Inform the client of information that it can receive upon request (see below).

7.4 Summary Information Provided Upon Request

The following information must be made available upon request to an AIF investor or a managed account client:

- The providers paid from the RPA;
- The total amount they were paid over a defined period;
- The benefits and services received by the Firm; and
- How the total amount spent from the account compares to the budget set by the Firm for that period, noting any rebate or carry-over if residual funds remain in the account.

ANNEX I

WRITTEN POLICY STATEMENT WHEN OPERATING A RESEARCH PAYMENT ACCOUNT

This Policy Statement sets out certain controls put in place by **Capricorn Fund Managers Limited** (the "Firm"), with respect to the operation of Research Payment Accounts (RPAs).

Q. How does the research purchased through an RPA benefit client portfolios?

A. The Firm manages a wide ranging variety of Funds. As such the firm benefits from third party research on companies, economies and markets in this space to help inform investment decisions as part of a mosaic process.

Q. How does the Firm set a budget for the provision of research?

A. The firm sets a budget for research once a year based on the requirements of the investment advisers to be able to obtain the best insight, information and access necessary to achieve their investment objectives. This budget is measured against industry norms and prior consumption.

Q. Once the budget has been set, how does the Firm allocate research costs fairly to the various clients' portfolios?

A. The Firm allocates research costs on the following basis: pro-rata, on the basis of respective funds under management at the time that the budget is set.

Q. How does the Firm regularly assess the quality of the research purchased?

A. The Firm assesses the quality of research as follows:

- Annual review of all engagements with research providers, which contributes to budgetary and procurement decisions for the forthcoming budgetary period;

Q. Where can up-to-date information on the matters covered below be obtained by investors and potential investors?

* The budgeted amount of research

* The amount of the estimated research charge for the fund

A. Can be found by request to the Firm

Q. Where the research budget or research charge is increased, how will this be communicated to investors and potential investors?

A. Any increase in research budget will be communicated to investors and prospective investors via email